GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:4927
ANSWERED ON:16.12.2016
Multi-Level Marketing Firms
Godse Shri Hemant Tukaram

Will the Minister of FINANCE be pleased to state:

(a) whether the Reserve Bank of India (RBI) has cautioned investors against multilevel marketing firms that promise high returns and run on hefty member subscription fees;

(b) if so, the details thereof;

(c) whether RBI is aware that there has been a spurt in the number of such schemes in recent past as various regulators are not taking actions against such entities; and

(d) if so, the details thereof and the action taken by the Government in this regard?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE

(a) and (b): Yes, Sir. The Reserve Bank of India (RBI) had cautioned public against Multi-Level Marketing (MLM) activities through a Press release on 01.01.2015 so that investors do not fall prey to unscrupulous entities. In the press release, inter-alia, it was stated that:-
1) Income of MLM / Chain Marketing/ Pyramid structure schemes that promise easy or quick money upon enrolment of members, primarily comes from enrolling more members with hefty subscription fees rather than any actual sale of products on offer.
2) If the chain of enrolling new members breaks, then the whole scheme collapses with members lower down the pyramid suffering the most.
3) Public was advised that it is in their own interests to avoid falling prey to any such offers of high and quick returns and that people should refrain from responding to such offers in any manner.
4) Acceptance of money under Money Circulation / MLM / Pyramid structures is a cognizable offence under the Prize Chit and Money Circulation (Banning) Act, 1978 and that members of public coming across such offers should immediately lodge a complaint with the State Police.

(c) and (d): RBI has indicated that they do not have any specific information in the matter. However, Government has issued Advisory to the State / UT Governments in the form of Model Framework on Guidelines for Direct Selling Entities dated 09.09.2016. Subsequently, a Gazette Notification dated 26.10.2016 has also been issued in this regard. These guidelines are guiding principles for State Governments to consider regulating the business of "Direct Selling" / MLM and strengthen the existing regulatory mechanism on Direct Selling and MLM, for preventing fraud and protecting the legitimate rights and interests of consumers.
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